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Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

Report of the Second Committee*

Rapporteur: Mr. Uladzimir **Gerus** (Belarus)

Addendum

I. Introduction

1. The Second Committee held a substantive debate on agenda item 91 (see A/53/606, para. 2). Action on sub-item (b) was taken at the 15th, 36th and 42nd meetings, on 16 October, 10 November and 1 December 1998. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/53/SR.15, 36 and 42).

II. Consideration of proposals

A. Draft resolutions A/C.2/53/L.4 and A/C.2/53/L.55

2. At the 15th meeting, on 16 October, the representative of *Indonesia*, on behalf of the States Members of the United Nations that are members of the Group of 77 and *China*, introduced a draft resolution entitled "The financial crisis and its impact on growth and development, especially in the developing countries" (A/C.2/53/L.4), which read:

"*The General Assembly*,

* The report of the Committee on this item will be issued in six parts, under the symbol A/53/606 and Add.1–5.

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"*Reaffirming* its resolution 52/180 of 18 December 1997 on global financial flows and their impact on the developing countries, as well as the Economic and Social Council ministerial communiqué on market access of 7 July 1998, in particular its paragraph 10 on the serious implications of the financial crisis for world trade and trading prospects,

"*Also reaffirming* that global financial flows, in the context of financial globalization, have presented Governments, the multilateral financial institutions and the international community at large with new challenges and opportunities, and that they should constitute a very important element of the dialogue between the United Nations system and the Bretton Woods institutions,

"*Mindful* of the vital role of financing for developing and fostering the economic development of the developing countries, and emphasizing the importance of adequate financial resources for development,

"*Recognizing* the benefits of the increasing integration of global markets and the important role of financial capital flows for promoting economic development and social welfare,

"*Deeply concerned* over the continuing decline of official development assistance, which is a major external source for financing development and is a crucial input for infrastructure development in developing countries, especially where private capital flows may either be inadequate or not available,

"*Regretting* that the financial markets have exhibited extreme volatility, which has resulted in higher interest rate spreads and a sharp decline in private capital flows to developing countries, leading to a significant slowdown in economic activity,

"*Deeply concerned* that the international financial crisis has acquired extremely worrying dimensions, posing a severe threat to world economic development,

"*Expressing concern* that the financial crisis has seriously affected the growth and development prospects of least developed countries,

"*Also expressing concern* over the negative effects of the financial crisis on the international trading system, in particular the sharp reduction of commodity prices and its negative effects on the development prospect of developing countries,

"*Recognizing* the weaknesses and the need to improve international financial architecture to enable it to deal with the new challenges of global financial integration,

"1. *Takes note* of the report of the Secretary-General entitled 'Global financial flows and their impact on developing countries: addressing the matter of volatility', the *World Economic and Social Survey, 1998* and the *Trade and Development Report, 1998*;

"2. *Stresses* the importance of having an enabling international environment and a strong cooperative effort by all countries and institutions to support crisis-hit countries and to prevent further contagion, and calls on all countries, particularly major developed countries with significant influence on the economic situation at the global and regional levels, to adopt and implement effective policy measures conducive to economic growth and to promote a favourable external economic environment for the economic recovery of the affected developing countries and countries in a critical economic situation;

"3. *Emphasizes* that the international financial institutions, in providing policy advice and prescriptions in the context of adjustments and financial crisis programme,

should ensure that they are sensitive to specific needs and circumstances of developing countries and ensure the best possible outcome for the economies concerned;

"4. *Also recognizes* the importance of safeguarding the growth and development prospects of least developed countries, which remain the poorest and most vulnerable segment of the international community, and calls upon development partners to adopt immediate measures, in particular for substantial increase in official development assistance, large-scale debt relief, improved market access and enhanced balance-of-payments support;

"5. *Stresses* the need for constructive dialogue among developed and developing countries with regard to the repeated appeals for improving the international financial system;

"6. *Also stresses* the importance of the open high-level dialogue between the Economic and Social Council and the Bretton Woods institutions, and invites the Secretary-General to consider the possibility of convening the high-level dialogue in 1999 immediately before the spring meeting between the World Bank and the International Monetary Fund;

"7. *Recognizes* the need to improve the capacities and modalities of the international monetary and development finance institutions to prevent, and to respond in a timely and effective manner to, crises induced by large-scale capital movements;

"8. *Stresses* the urgent need to endow the International Monetary Fund with adequate resources to provide emergency financing to countries affected by financial crises as a result of the high volatilities of international capital flows;

"9. *Also stresses* the need to consolidate the international and national financial systems through a more effective national, regional and international surveillance, based upon the improvement of the availability and transparency of information, as well as the strengthening of the role of the international financial institutions in the prevention, management and solution of financial crisis;

"10. *Invites* the International Monetary Fund to determine additional regulatory and disclosure measures to ensure greater transparency of financial market participants, including highly leveraged operations of the international institutional investors;

"11. *Encourages* the Interim Committee of the Board of Governors of the International Monetary Fund to expedite the work relative to the greater involvement of the private sector in preventing and resolving financial crisis;

"12. *Emphasizes* that the opening of the capital account must be carried out in an orderly, gradual and well sequenced manner, keeping its pace in line with the strengthening of countries' ability to sustain its consequences, and invites the International Monetary Fund to contribute to this process;

"13. *Calls on* the international community to pursue national and international efforts, at the intergovernmental and inter-agency levels, to contribute to minimizing the excessive volatility of global financial flows, and to distribute in a more equitable manner the costs of systemic adjustments between the public and private sectors;

"14. *Invites* the International Monetary Fund to facilitate the dialogue among relevant actors to consider the possibility of establishing a regulatory framework for short-term capital flows and trade in currencies;

"15. *Recognizes* that a most important question that needs to be addressed by the international community in the wake of globalization is the need to mobilize resources for such goals as poverty eradication, human resources development and health and education;

"16. *Welcomes* the efforts of the World Bank to help Governments to address the social consequences of crises, including strengthening social safety nets for the most vulnerable;

"17. *Requests* the Secretary-General, in close cooperation with the Bretton Woods institutions and the United Nations Conference on Trade and Development, to analyse the current trends in global financial flows and make recommendations in the *World Economic and Social Survey, 1999* and the *Trade and Development Report, 1999* on ways and means to prevent and respond to the systemic crisis in a comprehensive manner and with a long-term perspective, while remaining responsive to the challenges of development and the protection of the most vulnerable social groups, including recommendations on modalities to improve prevention and early warning capabilities for dealing with the emergence and spread of financial crises in a timely manner;

"18. *Also requests* the Secretary-General, in collaboration with the United Nations Conference on Trade and Development, to report to the General Assembly at its fifty-fourth session on the implementation of the present resolution."

3. At the 42nd meeting, on 1 December, the Vice-Chairman of the Committee, Burak Özügergin (Turkey), in the absence of Odyek Agona (Uganda), Vice-Chairman of the Committee, introduced a draft resolution entitled "The financial crisis and its impact on growth and development, especially in the developing countries" (A/C.2/53/L.55), submitted on the basis of informal consultations held on draft resolution A/C.2/53/L.4, and orally revised it as follows:

(a) In the third preambular paragraph, the words "developing and" before the words "fostering the economic development of the developing countries" were deleted;

(b) In the fourth preambular paragraph, the word "financial" before the words "capital flows" was deleted.

4. At the same meeting, the Committee adopted draft resolution A/C.2/53/L.55, as orally revised (see para. 10, draft resolution I).

5. In the light of the adoption of draft resolution A/C.2/53/L.55, draft resolution A/C.2/53/L.4 was withdrawn by its sponsors.

B. Draft resolution A/C.2/53/L.28

6. At the 36th meeting, on 10 November, the Chairman of the Committee introduced a draft resolution entitled "High-level international intergovernmental consideration of financing for development" (A/C.2/53/L.28).

7. The Secretary of the Committee read out a statement regarding the conference-servicing implications of the draft resolution (see A/C.2/53/SR.36).

8. At the same meeting, the Committee adopted draft resolution A/C.2/53/L.28 (see para. 10, draft resolution II).

C. Draft decision proposed by the Chairman

9. At the 36th meeting, on 10 November, on the proposal of the Chairman, the Committee decided to recommend to the General Assembly that it take note of the report of the Secretary-General on the financing of development, including net transfer of resources between developing and developed countries (A/53/228) and the report of the Secretary-General entitled "High-level international intergovernmental consideration of financing for development: work of the United Nations system" (A/53/479) (see para. 11).

III. Recommendations of the Second Committee

10. The Second Committee recommends to the General Assembly the adoption of the following draft resolutions:

Draft resolution I

The financial crisis and its impact on growth and development, especially in the developing countries

The General Assembly,

Reaffirming its resolution 52/180 of 18 December 1997 on global financial flows and their impact on the developing countries, as well as the ministerial communiqué on market access, adopted by the Economic and Social Council on 8 July 1998,[1]

Also reaffirming that global financial flows, in the context of financial globalization, have presented Governments, the multilateral financial institutions and the international community at large with new challenges and opportunities, and that they should constitute a very important element of the dialogue between the United Nations system and the Bretton Woods institutions,

Mindful of the vital role of financing for fostering the economic development of the developing countries, and emphasizing the importance of adequate financial resources for development,

Recognizing the benefits of the increasing integration of global markets and the important role of capital flows for promoting economic development and social welfare,

Deeply concerned at the overall declining trend in official development assistance, which is a significant external resource for financing development and an important source of support to the efforts of developing countries, in particular least developed countries, to create an enabling environment for eradicating poverty and tackling basic social needs, especially where private capital flows may either be inadequate or unavailable,

Regretting that the current crisis in financial markets, characterized, *inter alia*, by massive and sudden outflows of capital from the affected countries and the sharp decline in private capital flows to developing countries and some economies in transition, has resulted in higher interest rate spreads, leading to a significant slowdown in economic activity,

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 3* (A/53/3), chap. IV, para. 5.

Welcoming the continued efforts of the countries affected by the crisis to restore financial and economic stability, ease the social impact of the crisis and put their economies on the path of recovery, and in this context also welcoming the continued support of the international community, including the multilateral financial institutions, to the affected countries,

Deeply concerned that the international financial crisis has acquired extremely worrying dimensions, posing a threat to world economic development, and that if it were allowed to continue financial turmoil could result in major setbacks to the global economy, in particular to the progress that most developing countries have achieved in the 1990s,

Expressing concern at the negative effects of the financial crisis on international trade, in particular the sharp reduction in commodity prices and its negative effects on the development prospects for developing countries and some economies in transition, and emphasizing that keeping all markets open, in accordance with multilateral trade rules, and maintaining continued growth in world trade are key elements in overcoming the crisis, and in this context rejecting the use of any protectionist measures,

Expressing concern that the financial crisis has also seriously affected the growth and development prospect of least developed countries,

Recognizing that the current crisis has exposed weaknesses in the international financial system and the urgent need to work on a wide range of reforms to create a strengthened international financial system with a view to enabling it to deal more effectively and in a timely manner with the new challenges of global financial integration,

Welcoming the convening of the special high-level meeting of the Economic and Social Council with the Bretton Woods institutions held in New York on 18 April 1998 and the convening of the meeting of the World Bank's "Exchange Programme" with a delegation of United Nations ambassadors, led by the President of the Economic and Social Council, held at Washington, D.C., on 27 and 28 May 1998,

1. *Takes note* of the report of the Secretary-General entitled "Global financial flows and their impact on developing countries: addressing the matter of volatility,[2] the *World Economic and Social Survey, 1998*[3] and the *Trade and Development Report, 1998*;[4]

2. *Stresses* the importance of having an enabling international environment and a strong cooperative effort by all countries and institutions to support crisis-hit countries and to prevent further contagion, and calls on all countries, particularly major industrialized countries, which have significant weight in influencing world economic growth, to adopt and pursue policies conducive to economic growth and to promote a favourable external economic environment for the recovery of the affected countries and countries in a critical economic situation;

3. *Also stresses* the importance at the national level of sound macroeconomic policies and policies aimed at strengthening the institutional capacities and regulatory frameworks, especially the regulatory and supervisory systems of the domestic financial and banking sectors;

4. *Emphasizes* that the international financial institutions, in providing policy advice and prescriptions in the context of adjustment and financial crisis programmes, should ensure that they are sensitive to the specific circumstances of the concerned countries and

[2] A/53/398.

[3] United Nations publication, Sales No. E.98.II.C.1.

[4] United Nations publication, Sales No. E.98.II.D.6.

to the special needs of developing countries and work towards the best possible outcome for the economies concerned;

5. *Recognizes* the importance of accelerating the growth and development prospect of least developed countries, which remain the poorest and most vulnerable segment of the international community, and calls upon development partners to carry on their efforts to increase official development assistance, and their efforts aimed at strengthened debt relief, improved market access and enhanced balance-of-payments support;

6. *Stresses* the need for continued and constructive dialogue in the appropriate forums among developed and developing countries on issues related to strengthening and reforming the international financial architecture;

7. *Also stresses* the need for the international community to continue to work together in formulating a global approach towards financial crisis, and in this regard welcomes the efforts undertaken to strengthen further the cooperation and collaboration among the United Nations system, the International Monetary Fund, the World Bank, the regional development banks, the World Trade Organization and other relevant international economic institutions in the areas of common and complementary objectives;

8. *Stresses* the importance of the open high-level dialogue between the Economic and Social Council and the Bretton Woods institutions, and invites the Secretary-General to further support the Economic and Social Council in the organization of the high-level dialogue in 1999, in accordance with Assembly resolution 50/227 of 24 May 1996;

9. *Recognizes* the need to improve the capacities and modalities of the international financial institutions with regard to the prevention, management and resolution in a timely and effective manner of international financial crises;

10. *Stresses* the importance of strengthened collaboration between the World Bank and the International Monetary Fund in specific areas where collaboration is needed, such as the financial sector, while recognizing the specific mandates of the two institutions, and also stresses the need for the institutions dealing with financial crises to keep in mind the overall objective of facilitating long-term development;

11. *Stresses* the need to endow the International Monetary Fund with adequate resources to provide emergency financing to countries affected by financial crises as a result, among others, of the high volatility of international capital flows, and in this context also stresses the importance of sound macroeconomic policies and policies aimed at strengthening the institutional capacities and regulatory frameworks;

12. *Also stresses* the need to strengthen the international and national financial systems through a more effective national, regional and international surveillance of both public and private sectors, based upon the improvement of the availability and transparency of information, as well as the strengthening of the role of the International Monetary Fund in this regard, and the collaboration of the World Bank with technical assistance and capacity-building in this matter;

13. *Invites* the International Monetary Fund and relevant international regulatory bodies to consider as quickly as possible additional regulatory and disclosure measures to ensure greater transparency of financial market participants, including international institutional investors, particularly of highly leveraged operations;

14. *Encourages* the Interim Committee of the Board of Governors of the International Monetary Fund and other relevant forums to expedite the work relative to the greater involvement of the private sector in preventing and resolving financial crises;

15. *Emphasizes* that the opening of the capital account must be carried out in an orderly, gradual and well-sequenced manner, keeping its pace in line with the strengthening of countries' ability to sustain its consequences, underscores the crucial importance in this regard of solid domestic financial systems and of an effective prudential framework, and invites the International Monetary Fund, the World Bank and relevant international regulatory bodies to contribute to this process;

16. *Calls on* the international community to pursue national and international efforts, at the intergovernmental and inter-agency levels, to contribute to minimizing the excessive volatility of global financial flows, and to distribute in a more equitable manner the costs of systemic adjustments between the public and private sectors;

17. *Invites* the International Monetary Fund to facilitate the dialogue among relevant actors to consider the possibility of establishing regulatory frameworks for short-term capital flows and trade in currencies;

18. *Recognizes* that a most important question that needs to be addressed by the international community in the process of globalization is the need to mobilize resources for such goals as poverty eradication, human resources development, and health and education;

19. *Welcomes* the efforts of the World Bank to help Governments to address the social consequences of crises, including strengthening social safety nets for the most vulnerable;

20. *Requests* the Secretary-General, in close cooperation with all relevant entities of the United Nations, including the United Nations Conference on Trade and Development, within their respective existing mandates, and in consultation with the Bretton Woods institutions, to analyse the current trend in global financial flows and modalities to improve early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective, while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups;

21. *Also requests* the Secretary-General, in cooperation with the Bretton Woods institutions and the United Nations Conference on Trade and Development, to report to the General Assembly at its fifty-fourth session on the implementation of the present resolution.

Draft resolution II

High-level international intergovernmental consideration of financing for development

The General Assembly,

Reaffirming its resolution 52/179 of 18 December 1997,

Taking note of the views expressed by Governments, including those reflected in the notes by the Secretary-General of 24 March 1998[5] and 8 October 1998,[6] on the key elements that might be included in consideration of financing for development,

1. *Recalls* its decision in resolution 52/179 to establish an ad hoc open-ended working group of the General Assembly to undertake an in-depth examination of all inputs

[5] A/52/840.

[6] A/53/470.

requested in the resolution, with a view to formulating a report containing recommendations on the form, scope and agenda of, *inter alia*, a summit, an international conference, a special session of the General Assembly or other appropriate high-level international intergovernmental forum on financing for development to further global partnership for development, to be convened not later than the year 2001;

2. *Requests* the ad hoc working group to consider appropriate modalities that will ensure the completion of its work and the submission of specific recommendations to the General Assembly at its fifty-fourth session;

3. *Requests* the President of the General Assembly at its fifty-third session to serve as ex officio chairman of the ad hoc working group and to convene an organizational meeting of the ad hoc working group not later than January 1999 to decide on the modalities referred to in paragraph 2 of the present resolution and to develop arrangements for the effective direction and functioning of the ad hoc working group;

4. *Also requests* the President of the General Assembly at its fifty-third session, in close consultations with Member States, to designate two vice-chairpersons for the ad hoc working group, preferably before the convening of its organizational meeting in January 1999, bearing in mind appropriate representation;

5. *Requests* the Bureau of the Second Committee at the fifty-third session of the General Assembly, with the assistance of the Secretariat, to organize briefings or panel discussions on important topics or significant trends and events that may enrich the deliberations of the ad hoc working group;

6. *Decides* to include in the provisional agenda of its fifty-fourth session, under the item entitled "Macroeconomic policy questions", a sub-item entitled "High-level international intergovernmental consideration of financing for development".

* * *

11. The Second Committee also recommends to the General Assembly the adoption of the following draft decision:

Documents relating to the financing of development

The General Assembly takes note of the following reports:

(a) Report of the Secretary-General on the financing of development, including net transfer of resources between developing and developed countries;[7]

(b) Report of the Secretary-General entitled "High-level international intergovernmental consideration of financing for development: work of the United Nations system".[8]

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[7] A/53/228.

[8] A/53/479.